

**City of Seattle Voluntary Deferred Compensation Plan
Minutes of Regular Plan Committee Meeting
Wednesday, September 10, 2014 10:00 AM – 12:00 PM
Seattle Municipal Tower, Room 4096**

TRUSTEES present: Teri Allen, Ken Nakatsu, Glen Lee, Susan Coskey and Bill Alves
(**absent:** Scott Best and Marty Yellam)

STAFF present: Florence Katz and Crystal Roncek, Personnel/HR Department; George Emerson, FAS; Jeff Slayton, CAO

CONSULTANTS present: Jake O'Shaughnessy and Stuart Payment, Arnerich Massena, Inc.; Bob Belanger and Jason Tuscher, Prudential Retirement

GUESTS present: Dennis Karl and Kenny Stuart, IAFF Local 27; Steve Ebert, Nationwide Retirement

BUSINESS

Opening: Teri Allen, the Committee Chair, started the meeting at 10:10 AM without a quorum.

Introductions: All attendees present at 10:10 introduced themselves, including William (Bill) Alves, the proposed new Member-at-Large.

Investment Consultant's Report: Because we did not have a quorum, the meeting started with regular business items (reports) rather than business items involving votes. Jake O'Shaughnessy began to present the Q2 investment performance report. The presentation was temporarily suspended when Glen Lee arrived at 10:16, providing a quorum of recognized Committee members (Teri Allen, Susan Coskey, Ken Nakatsu and Glen Lee).

Member-at-Large Vacancy: Teri Allen noted that the Member-at-Large position had been vacant since John McCoy left the City in March 2014. Applications from interested participants were solicited, generating eight applications before the deadline. The recruitment and selection process then moved to the review of the eight applications, three finalist interviews and a recommendation that William (Bill) Alves fill the seat. Susan Coskey asked to see Bill's application; Florence Katz apologized for not having included it in the Committee's packet and committed to providing it at a later time. Bill then described the investment, policy experience and other capabilities he would bring to the Member-at-Large position, and his eagerness to contribute in this way.

<p>MOTION: Ken Nakatsu moved to have Bill Alves fill the Member-at-Large seat and Glen Lee seconded the motion. Upon a call for a vote, the motion carried unanimously.</p>
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Investment Consultant's Report (continued): Jake also provided information on the performance of our on-watch investment option, Calamos, providing new information

(15-year performance) to justify keeping it on watch. Discussion then occurred about the new information and the value of keeping an investment on watch for an extended period of time. The group agreed to reconsider the retention of Calamos at the November meeting, and if replaced, whether to mandate that existing assets in Calamos be moved to a replacement investment option, or whether only new deferrals would be directed into the replacement. (Past discussions on this matter generated considerable input from the representatives of the Coalition of City Unions, Marty Yellam and Scott Best.) The group also recognized that Calamos could be obtained via the Self-Directed Brokerage Account option, although the associated expenses and return would be affected as Calamos would no longer be available through the institutional market.

Arnerich Massena, Prudential Retirement and staff were asked to explore how long Calamos has been in the plan, its presence in Goalmaker, and participant use of that investment prior to the November meeting.

The discussion then touched on the plan's socially responsible investment, Calvert Social Investment Equity I, which represents 0.5% of participant assets. Jake indicated that Calvert is not providing the return that other socially responsible investments do, and that there are now available balanced funds involving multiple socially responsible investments. In recognition of time constraints on the November agenda at which the audit of 2013 financials will be presented, discussion of socially responsible investment offerings will be delayed until January, following review by the Investment Portfolio Subcommittee.

Public Comments: As the opportunity for public comments had not been offered at the start of the meeting, Teri Allen did so. Steve Ebert of Nationwide Retirement Solutions identified himself but did not provide further commentary.

Staffing and Budget: Florence Katz began to discuss the budget submitted to the CBO for the upcoming biennium. Certain costs for the Plan's 2015-2016 budget were adjusted upward, as past annual budgets have underestimated professional (legal, investment consulting and audit) costs as well as fiduciary liability insurance costs. CBO has already recognized and approved increased spending for those purposes.

Florence then noted that she had requested additional staffing, for which CBO is particularly interested in having the Committee provide its support and approval. She noted that staffing allocations and budgets have consistently proven to be inadequate for the past five years or so. This has resulted in Personnel (now SDHR) having to cover some supplemental staffing costs for the Plan from its departmental budget. To address staffing needs more satisfactorily, SDHR requested additional Deferred Compensation staffing for 2015-2016. CBO reviewed the request and asked for justification beyond our own experience. Florence then surveyed other plans through NAGDCA, obtaining comparative data concerning their own staffing. Based on 10-12 responses that were identified, summarized and shared with CBO, the City's staffing ratio was near the bottom.

Florence noted there had been past legal and IRS fees incurred due to past lapses in City processes, and noted that the combined efforts of the two currently budgeted staff members add up to less than 1.0 FTE. The 2015-2016 staffing increase requests and associated costs are listed below.

- Increase Deferred Compensation Coordinator position from 0.5 FTE to 0.8 FTE (approximately \$33,000)
- Add new 0.6 FTE Deferred Compensation Assistant (approximately \$50,000)

This staffing increase would address unmet workload demands, permit reallocation of duties, including some transactional matters away from the more senior staff member (Florence), provide for better quality control (via double checking), help avoid or reduce legal/rework costs, foster better separation of duties and meet basic back-up needs that occur when a staff member is on vacation, ill, etc.

MOTION: Susan Coskey moved to approve the staffing changes, recognizing the associated cost impacts to the Plan. Glen Lee seconded the motion. The group asked about increasing the staffing request further at this time, but Florence suggested that she was unable to arrive at an alternate request on the spot, but would come back at a later time as necessary. Teri Allen also asked about any need to communicate increased staffing costs to participants; this idea was not pursued.

Upon a call for a vote, the motion to approve increased staffing as reflected in the 2015-2016 budget submission was approved unanimously.

Minutes of Last Meetings: Teri Allen asked for a review of the July 9 meeting minutes. As there were no changes suggested, Jeff Slayton indicated that the minutes could be considered to have been approved by default.

Discussion ensued about approving the minutes of the meetings of the subgroup involved with review of applications and interviewing of selected Member-at-Large candidates. Jeff Slayton noted various options to approve them, and there was an informal request that such actions be taken separately, perhaps by having a short meeting of the Member-at-Large subgroup before the next full Committee meeting.

Handling Shareholder Voting Requests: Florence Katz reported that following the Committee meeting in July, she sought legal guidance on the following questions asked by the Committee concerning proxy voting.

- Does the Committee have a fiduciary obligation to vote on proxies concerning the funds (investment offerings) in our Plan?
- If it does have to vote, what does the Committee have to do to meet its fiduciary responsibility?
- If it doesn't have to vote, but does so occasionally, is there a fiduciary risk in those situations when the Committee does or does not take action?

- What needs to be considered in any proxy voting? Would it be sufficient to base a vote on information from our investment consultant?
- Do we need to have a specific mission statement or amendment to the Plan Document to address proxy voting?
- Do we need to communicate any proxy approach – or lack thereof – to participants?

Florence had summarized the legal guidance in writing, and distributed that and counsel's more in-depth response prior to the meeting. Issues that are relevant for Committee consideration could include the extent of proxy delegation (e.g., to a dedicated service) and the frequency and economic value of proxy voting relative to the costs of undertaken the associated research and delegation work. As the Committee did not feel it had enough guidance to take action in September, the topic was tabled until a later date.

Unforeseeable Emergency Withdrawal (UEW) Subcommittee Membership: Florence Katz indicated that Glen Lee indicated he did not wish to stay on the UEW Subcommittee. Glen Lee indicated that the needed response times do not work with his schedule. Crystal Roncek noted the difficulty of obtaining two consistent (a majority of) votes out of the Subcommittee of three (with an alternate). There was a request made at the Committee meeting for a new member or alternate; no one volunteered.

Based on the discussion, the UEW Subcommittee will include Marty Yellam, Scott Best and Teri Allen in the near future, with no alternate, and Crystal Roncek will explore additional means (e.g., texting, phone calls) to indicate that there are emails on UEW requests awaiting their review and votes.

Record-keeper Update: Bob Belanger reviewed some high-level Plan statistics and indicated that a new definition of "fiduciary" may be coming from the U.S. Department of Labor which oversees the performance of ERISA plans.

Staff Update: Florence Katz reviewed Deferred Compensation transactions that had been processed by the City in July and August, after operating fund custodianship and processing had moved to Prudential Retirement. Several issues had developed with regard to Prudential's processing of invoices on behalf of the Plan; processing and documentation changes were in the process of being corrected.

Other: There was a brief mention that Crystal Roncek would be the only person from the City attending the NAGDCA conference starting September 14, and that Arnerich Massena would be holding a client conference on "Finding Your Way Through the Fiduciary Maze" on October 15 to which Committee members were invited.

Adjournment: At approximately 11:46 AM Ken Nakatsu moved to adjourn. Glen Lee seconded the motion, which received a unanimous vote.

Next Meeting: The next regular meeting is scheduled for Wednesday, November 12, 2014 at 10 AM in the Seattle Municipal Tower, Conference Room 4096.